

Ms. Donna Nackers, Assistant Director of Reimbursement
Mariner Post-Acute Network
One Ravinia Drive, Suite 1500
Atlanta, Georgia 30346

Re: AC# 3-HAL-J7 – GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center

Dear Ms. Nackers:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

**GRANCARE SOUTH CAROLINA, INC.
D/B/A HALLMARK HEALTH CARE CENTER**

SUMMERVILLE, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-HAL-J7**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 23, 1999

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center, for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center dated as of June 3, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 23, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

HALLMARK HEALTH CARE CENTER

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-HAL-J7

| | <u>10/01/98- 11/30/98</u> | <u>12/01/98- 09/30/99</u> |
|--------------------------------|-------------------------------|-------------------------------|
| Interim reimbursement rate (1) | \$95.30 | \$96.05 |
| Adjusted reimbursement rate | <u>87.60</u> | <u>88.35</u> |
| Decrease in reimbursement rate | \$ <u>7.70</u> | \$ <u>7.70</u> |

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

HALLMARK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-HAL-J7

| | <u>Incentives</u> | <u>Allowable Cost</u> | <u>Cost Standard</u> | <u>Computed Rate</u> |
|--|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u> | | | | |
| General Services | | \$34.93 | \$46.64 | |
| Dietary | | 8.50 | 9.93 | |
| Laundry/Housekeeping/Maint. | | <u>7.65</u> | <u>8.11</u> | |
| Subtotal | <u>\$4.53</u> | 51.08 | 64.68 | \$51.08 |
| Administration & Med. Rec. | <u>\$ -</u> | <u>18.08</u> | <u>10.90</u> | <u>10.90</u> |
| Subtotal | | 69.16 | <u>\$75.58</u> | 61.98 |
| <u>Costs Not Subject to Standards:</u> | | | | |
| Utilities | | 2.42 | | 2.42 |
| Special Services | | 3.47 | | 3.47 |
| Medical Supplies & Oxy. | | 3.61 | | 3.61 |
| Taxes and Insurance | | 2.53 | | 2.53 |
| Legal Fees | | <u>-</u> | | <u>-</u> |
| TOTAL | | <u>\$81.19</u> | | 74.01 |
| Inflation Factor (3.60%) | | | | 2.66 |
| Cost of Capital | | | | 8.93 |
| Cost of Capital Limitation | | | | - |
| Profit Incentive (Max. 3.5% of Allowable Cost) | | | | - |
| Cost Incentive | | | | 4.53 |
| Effect of \$1.75 Cap on Cost/Profit Incentives | | | | (2.78) |
| Minimum Wage Add On | | | | <u>.25</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$87.60</u> |

HALLMARK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Periods December 1, 1998 Through September 30, 1999
AC# 3-HAL-J7

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| TOTAL | | <u>\$81.19</u> | | 74.01 |
| Inflation Factor (3.60%) | | | | 2.66 |
| Cost of Capital | | | | 8.93 |
| Cost of Capital Limitation | | | | - |
| Profit Incentive (Max. 3.5% of Allowable Cost) | | | | - |
| Cost Incentive | | | | 4.53 |
| Effect of \$1.75 Cap on Cost/Profit Incentives | | | | (2.78) |
| Minimum Wage and CNA Add-Ons | | | | <u>1.00</u> |
| ADJUSTED REIMBURSEMENT RATE | | | | <u>\$88.35</u> |

HALLMARK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-HAL-J7

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments <u>Debit</u> | <u>Credit</u> | <u>Adjusted Totals</u> |
|-------------------------------------|--|-----------------------------|---|----------------------------|
| General Services | \$1,096,823 | \$ - | \$ 4,846(3) 3,787(12) | \$1,088,190 |
| Dietary | 269,831 | - | 4,945(4) | 264,886 |
| Laundry | 47,705 | 277(15) | - | 47,982 |
| Housekeeping | 84,338 | 492(15) | 4,635(16) | 80,195 |
| Maintenance | 120,834 | 711(15) | 4,158(5) 1,102(6) 6,264(16) | 110,021 |
| Administration & Medical Records | 572,530 | 1,374(15) | 10,688(16) | 563,216 |
| Utilities | 83,804 | 491(15) | 4,765(7) 4,260(16) | 75,270 |
| Special Services | 112,425 | - | 5(13) 4,424(14) | 107,996 |
| Medical Supplies & Oxygen | 278,356 | - | 13,737(9) 1,518(10) 3,398(11) 66,672(12) 80,624(13) | 112,407 |
| Taxes & Insurance | 93,570 | 518(15) | 10,949(8) 4,177(16) | 78,962 |
| Legal Fees | - | - | - | - |

HALLMARK HEALTH CARE CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1997
 AC# 3-HAL-J7

| <u>Expenses</u> | Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u> | Adjustments | | <u>Adjusted Totals</u> |
|-----------------------------|--|---|-------------------------------------|----------------------------|
| | | <u>Debit</u> | <u>Credit</u> | |
| Cost of Capital | 288,959 | 14,488(2) 696(15) <u>1,224(17)</u> | 26,088(1) 1,004(16) | 278,275 |
| Subtotal | 3,049,175 | 20,271 | 262,046 | 2,807,400 |
| Ancillary | 198,777 | - | - | 198,777 |
| Non-Allowable | 1,261,674 | 26,088(1) 580(5) 4,765(7) 13,718(9) 891(11) 70,459(12) 80,629(13) 4,424(14) <u>31,028(16)</u> | 14,488(2) 4,559(15) 1,224(17) | 1,473,985 |
| Total Operating Expenses | <u>\$4,509,626</u> | <u>\$252,853</u> | <u>\$282,317</u> | <u>\$4,480,162</u> |
| Total Patient Days | * <u>31,156</u> | <u>-</u> | <u>-</u> | <u>31,156</u> |
| *Adjusted to 97% occupancy | | | | |
| Total Beds | <u>88</u> | | | |

HALLMARK HEALTH CARE CENTER
Adjustment Report
For the Cost Report Period Ended September 30, 1997
AC# 3-HAL-J7

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|--------------|---------------|
| 1 | Accumulated Depreciation | \$ 45,772 | |
| | Other Equity | 334,925 | |
| | Nonallowable | 26,088 | |
| | Fixed Assets | | \$380,697 |
| | Cost of Capital | | 26,088 |
| | To adjust fixed assets and related depreciation to allowable HIM-15-1, Sections 2102.3 and 2304 State Plan, Attachment 4.19D | | |
| 2 | Cost of Capital | 14,488 | |
| | Nonallowable | | 14,488 |
| | To adjust depreciation expense and loan cost amortization to comply with capital cost policy State Plan, Attachment 4.19D | | |
| 3 | Retained Earnings | 4,846 | |
| | Nursing | | 4,846 |
| | To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1 | | |
| 4 | Retained Earnings | 4,945 | |
| | Dietary | | 4,945 |
| | To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1 | | |

HALLMARK HEALTH CARE CENTER
Adjustment Report
For the Cost Report Period Ended September 30, 1997
AC# 3-HAL-J7

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|---|--------------|-----------------|
| 5 | Nonallowable Retained Earnings Maintenance | 580 3,578 | 4,158 |
| | To properly charge expense applicable to the prior period and disallow expense due to lack of documentation HIM-15-1, Sections 2302.1 and 2304 | | |
| 6 | Retained Earnings Maintenance | 1,102 | 1,102 |
| | To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1 | | |
| 7 | Nonallowable Utilities | 4,765 | 4,765 |
| | To disallow cable TV expense HIM-15-1, Section 2106 | | |
| 8 | Retained Earnings Taxes and Insurance Accrued Property Taxes | 13,463 | 10,949 2,514 |
| | To adjust property taxes and related accrual to actual HIM-15-1, Section 2302.1 | | |
| 9 | Nonallowable Retained Earnings Medical Supplies | 13,718 19 | 13,737 |
| | To properly charge expense applicable to the prior period and disallow expense due to lack of documentation HIM-15-1, Sections 2302.1 and 2304 | | |

HALLMARK HEALTH CARE CENTER
Adjustment Report
For the Cost Report Period Ended September 30, 1997
AC# 3-HAL-J7

| <u>ADJUSTMENT</u> <u>NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------------|---|--------------|---------------|
| 10 | Retained Earnings | 1,518 | |
| | Medical Supplies | | 1,518 |
| | To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1 | | |
| 11 | Nonallowable | 891 | |
| | Retained Earnings | 2,507 | |
| | Medical Supplies | | 3,398 |
| | To properly charge expense applicable to the prior period and disallow expense due to lack of documentation HIM-15-1, Sections 2302.1 and 2304 | | |
| 12 | Nonallowable | 70,459 | |
| | Nursing | | 3,787 |
| | Medical Supplies | | 66,672 |
| | To disallow expense due to lack of documentation HIM-15-1, Section 2304 | | |
| 13 | Nonallowable | 80,629 | |
| | Special Services | | 5 |
| | Medical Supplies | | 80,624 |
| | To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D | | |
| 14 | Nonallowable | 4,424 | |
| | Special Services | | 4,424 |
| | To adjust co-insurance for Medicare Part B services to allowable State Plan, Attachment 4.19D | | |

HALLMARK HEALTH CARE CENTER
Adjustment Report
For the Cost Report Period Ended September 30, 1997
AC# 3-HAL-J7

| <u>ADJUSTMENT</u> <u>NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------------|---|--------------|---------------|
| 15 | Laundry | 277 | |
| | Housekeeping | 492 | |
| | Maintenance | 711 | |
| | Administration | 1,374 | |
| | Utilities | 491 | |
| | Taxes and Insurance | 518 | |
| | Cost of Capital | 696 | |
| | Nonallowable | | 4,559 |
| | To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D | | |
| 16 | Nonallowable | 31,028 | |
| | Housekeeping | | 4,635 |
| | Maintenance | | 6,264 |
| | Administration | | 10,688 |
| | Utilities | | 4,260 |
| | Taxes and Insurance | | 4,177 |
| | Cost of Capital | | 1,004 |
| | To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D | | |

HALLMARK HEALTH CARE CENTER
Adjustment Report
For the Cost Report Period Ended September 30, 1997
AC# 3-HAL-J7

| <u>ADJUSTMENT NUMBER</u> | <u>ACCOUNT TITLE</u> | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|--|------------------|------------------|
| 17 | Cost of Capital Nonallowable | 1,224 | 1,224 |
| | To adjust capital return to allowable State Plan, Attachment 4.19 | | |
| | | <hr/> | <hr/> |
| | TOTAL ADJUSTMENTS | <u>\$665,528</u> | <u>\$665,528</u> |

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HALLMARK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-HAL-J7

| | |
|--|-----------------------|
| Original Asset Cost (Per Bed) | \$ 15,618 |
| Inflation Adjustment | <u>2.1814</u> |
| Deemed Asset Value (Per Bed) | 34,069 |
| Number of Beds | <u>88</u> |
| Deemed Asset Value | 2,998,072 |
| Improvements Since 1981 | 114,046 |
| Accumulated Depreciation at 9/30/97 | <u>(345,939)</u> |
| Deemed Depreciated Value | 2,766,179 |
| Market Rate of Return | <u>0.067</u> |
| Total Annual Return | 185,334 |
| Return Applicable to Non-Reimbursable Cost Centers | (1,907) |
| Allocation and Interest to Non-Reimbursable Cost Centers | <u>18</u> |
| Allowable Annual Return | 183,445 |
| Depreciation Expense | 95,054 |
| Amortization Expense | 780 |
| Capital Related Income Offsets | - |
| Allocation of Capital Expenses to Non-Reimbursable Cost Centers | <u>(1,004)</u> |
| Allowable Cost of Capital Expense | 278,275 |
| Total Patient Days (Minimum 97% Occupancy) | <u>31,156</u> |
| Cost of Capital Per Diem | \$ <u><u>8.93</u></u> |